

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF HARRAH'S CASINO -CONTRACT COMPLIANCE

INTERNAL AUDIT REPORT 190204-06

December 28, 2004



December 28, 2004

Councilman Mike Gibson
Chairman, Shreveport City Council

Dear Councilman Gibson:

Subject: IAR 190204-06 - Audit of Harrah's Casino - Contract Compliance

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

bp

EXECUTIVE SUMMARY
AUDIT OF
HARRAH'S CASINO - CONTRACT COMPLIANCE
INTERNAL AUDIT REPORT (IAR) 190204-06

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

On March 10, 1998, the City entered into a lease agreement with Red River Entertainment (Harrah's). The end of 2003 was Harrah's tenth year of operation. In May 2004, Harrah's Shreveport was sold to Boyd Gaming Corp. and was renamed Sam's Town.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented.

<i>Risk Levels</i>	<i>Recommendations</i>
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	• Strengthen the review of vendors for M/WBE designation. (Finding 1)
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	No recommendations are applicable.
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	No recommendations are applicable.

INDEX

Executive Summary	1
Index	2
Objectives	3
Scope and Methodology.....	3
Background	3
Conclusions/Findings/Recommendations.....	3

FINDINGS

Risk Factor

1. Verification of Minority/Women-Owned Vendor Status	High.....	4
---	-----------	---

AUDIT OF HARRAH'S CASINO - CONTRACT COMPLIANCE INTERNAL AUDIT REPORT (IAR) 190204-06

OBJECTIVES

We have completed an audit of the ground lease dated March 10, 1998, between the City as landlord, and Red River Entertainment (Harrah's) as tenant. Our objectives were to determine whether, as defined in the lease agreement, the tenant:

- Remitted the correct amount of fixed rent, percentage rent, and additional rent to the City; and
- Complied with the Equal Opportunity Employment and Affirmative Action Plan initiatives.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives for the operating years 2002 and 2003. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.

BACKGROUND

On March 10, 1998, the City entered into a lease agreement with Red River Entertainment (Harrah's). The end of 2003 was Harrah's tenth year of operation. In May 2004, Harrah's Shreveport was sold to Boyd Gaming Corp. and was renamed Sam's Town.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of Harrah's Casino for their cooperation and assistance provided during our audit. Based on the results of our audit, we determined that the City was paid per the terms of the agreement. During the operating years of 2002 and 2003, average payments from Harrah's Casino were \$7.5 million per year.

Based on our review, we believe management could enhance the efficiency and control environment by strengthening the procedure to verify vendors as minority/women-owned businesses.

1. Verification of Minority/Women-Owned Vendor Status

Criteria: As a measure of a casino's accomplishments toward minority/women vendor procurement, a quarterly report is submitted to the City detailing minority and women business enterprise (M/WBE) vendor procurement. Reliance is placed on the accuracy of this report and the surrounding control environment to determine compliance with M/WBE procurement goals.

Condition: Harrah's utilized the vendor's notarized affidavit to ascertain M/WBE status. There was no documented verification of the vendor's status, i.e., review of ownership documentation, site visits, etc.

Effect: The control environment surrounding the verification of a vendor's minority status did not provide assurance as to the vendor's M/WBE qualifications.

Cause: Harrah's vendor verification process was designed to meet the state's M/WBE requirements.

Recommendation: We recommend that Harrah's consider the following possibilities of verifying vendors as M/WBE:

- Utilize the City of Shreveport's business certification programs whereby vendors could be evaluated for minority/female business status;
- Adopt a formal process of evaluating a vendor's minority status. This process, at a minimum, should include certification training, documented site visits, and review of appropriate documentation;
- Contract a consultant to perform M/WBE verifications.

Management Plan of Action:

Harrah's Response:

Please accept this as the Harrah's Management Response. However, as your office is aware the casino hotel which was subject of the audit has been sold to Boyd Gaming Corporation. The property is now run as Sam's Town Hotel and Casino. Thus, the Management Plan of action will be submitted under separate cover by Sam's Town management.

The review of vendors did not constitute a risk of fraud, waste or abuse of City assets. Specifically, the following information was requested and provided by each vendor:

- ◆ The corporate name of vendor as registered with the Louisiana Secretary of State.
- ◆ The vendor address and contact information.
- ◆ Federal Tax Number, State Sales Tax Number, Payment terms and business type.
- ◆ The application outlined the four (4) definitions of minority groups as set forth in the EEOC guidelines and provided definitions of Louisiana minority vendor status as promulgated by the

Louisiana Gaming Control Board. Based on these guidelines, the vendor was asked to provide its minority status, past and present, and names and percentage of ownership of each owner and whether the vendor currently had a Louisiana Minority Owned Business or Minority Business Enterprise certification.

- ◆ The vendor was requested to provide the length of time it had been in business, number of employees, number of customers and dollar amount of sales with the gaming industry in general, the Louisiana gaming industry and with the Louisiana non-gaming industry.
- ◆ The vendor was requested to provide a list of all vendor owned/leased real property or vehicles.
- ◆ The vendor was requested to disclose whether it brokered any goods/services to the gaming industry through a third party and if so, provide broker information.

An affidavit was attached to the Vendor Registration Form. It required that the Vendor acknowledge and declare that the information contained in the form was in fact true and correct. Any vendor found to have entered false information would have lead to the termination of the business relationship.

The review of the requested information and the affidavit significantly reduced any risk associated with the hotel casino's business relationships with minority and woman owned businesses.

During 2002 and 2003, Harrah's Shreveport utilized the services of Harrah's Corporate Strategic Sourcing team which worked directly with manufacturers of nationally contracted goods and services to encourage the distribution of their products through local minority and women-owned businesses in the jurisdictions where Harrah's operated casinos, including the Shreveport/Bossier City area. Harrah's Shreveport also worked with other corporate teams to develop strategies to track and maintain the continued participation of local minority and women-owned businesses at Harrah's Shreveport.

Sam's Town Shreveport Response:

Sam's Town Shreveport Casino is submitting a response to the 2002 through 2003 audit findings on contract compliance with the City of Shreveport. Although this audit period relates to Harrah's Entertainment, we would like to submit a response concerning our procedures related to the cited audit recommendation as ownership of the casino has now passed to Red River Entertainment, a subsidiary of Boyd Gaming Corporation.

Vendors are required to complete a vendor application packet with Sam's Town Shreveport. This packet provides the information necessary to establish vendor suitability and MBE/WBE status. Vendors must complete an affidavit attesting to their vendor status which must be notarized. Each vendor is then identified with the notated status and the forms are maintained for reference purposes.

Sam's Town Shreveport places the responsibility of attesting to vendor status on the vendors themselves. Our processes provide appropriate due diligence given the required documentation process mentioned above.

Prepared by:

Barbara Pfister, CFE, CGFM, CIA, CISA, CCP
Staff Auditor

Approved by:

Leanis Graham, CPA, CIA
City Internal Auditor

BP:jm

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor
Director of Finance
Harrah's Casino
Sam's Town Casino